

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

Subject: Standing Facilities

In relation to the stipulation of Bank Indonesia Regulation Number 12/11/PBI/2010 dated July 2, 2010 concerning Monetary Operations (State Gazette of the Republic of Indonesia Year 2010 Number 84, Supplement to State Gazette of the Republic of Indonesia Number 5141) and in the context of maintaining the 1 (one)-day (overnight) interbank money market interest rate, it is necessary to stipulate provisions concerning Standing Facilities in a Bank Indonesia Circular Letter, as follows:

I. GENERAL PROVISIONS

Referred to herein as:

1. Monetary Operation shall be the implementation of monetary policies by Bank Indonesia in the context of monetary management through Open Market Operation and Standing Facilities.
2. Standing Facilities shall be rupiah lending facility from Bank Indonesia to Banks and deposit facility by Banks at Bank Indonesia in the context of Monetary Operations.

3. BI-Rate shall be the policy interest rate which reflects the stance of monetary policies stipulated by Bank Indonesia and announced to the public.
4. Securities shall be the Securities meeting the criteria and requirements for lending facility transaction as referred to in Bank Indonesia provisions concerning the criteria and requirements of securities, participant and intermediary in Monetary Operation.
5. Bank Indonesia Certificates, hereinafter referred to as SBI, shall be securities in rupiah currency issued by Bank Indonesia as the acknowledgement of short-term indebtedness.
6. Sovereign Securities, hereinafter briefly referred to as SBN, shall be Sovereign Debt Securities and Sovereign Syariah Securities.
7. Sovereign Debt Securities, hereinafter briefly referred to as SUN, shall be securities in the form of acknowledgement of indebtedness in rupiah currency or foreign currencies, the payments of the interest and principal of which are guaranteed by the Government of the Republic of Indonesia, in accordance with the validity tenure thereof, as referred to in the applicable Act.
8. Sovereign Syariah Securities, hereinafter briefly referred to as SBSN, or may be referred to as Sovereign *Sukuk*, shall be the SBN issued based on sharia principles, either in Rupiah currency or foreign

currencies, as proof of participation in SBSN assets, as referred to in the applicable Act.

9. Sovereign Debt Securities shall be SUN with more than 12 (twelve) month-tenure with coupons and/or discounted payment of interest.
10. Government Treasury Bills, hereinafter briefly referred to as SPN, shall be SUN with up to 12 (twelve) month-tenure, with discounted payment of interest.
11. Zero Coupon Bond, hereinafter referred to as ZCB, shall be Government Bonds without coupons, with discounted payment of interest.
12. Retail Government Bond, hereinafter referred to as ORI, shall be Government Bonds sold in the primary market to individuals or natural persons of Indonesian Citizen.
13. Demand Deposit Account shall be rupiah demand deposit accounts of Banks in Bank Indonesia.
14. Securities Account shall be Securities accounts of Banks recorded in the active/trading accounts in Bank Indonesia-Scripless Securities Settlement System.
15. Bank Indonesia-Scripless Securities Settlement System, hereinafter briefly referred to as BI-SSSS, shall be a facility for transactions with Bank Indonesia including the administration thereof and the electronic

administration of securities, which is connected directly linked to participants, operator and Bank Indonesia – Real Time Gross Settlement System.

16. Bank Indonesia-Real Time Gross Settlement System, hereinafter briefly referred to as BI-RTGS System, shall be an electronic fund transfer system among the participants of BI-RTGS system in rupiah currency, the settlement of which is conducted in a real time manner per individual transaction.
17. Commercial Bank Daily Report System, hereinafter briefly referred to as LHBU System, shall be the Banks' facility for daily reporting to Bank Indonesia, including for provision of information on the money market and announcements from Bank Indonesia.

II. CHARACTERISTICS OF STANDING FACILITIES

1. Standing Facilities shall be the instruments used by Bank Indonesia for injecting and absorbing liquidity of rupiah in the money market.
2. Standing Facilities shall consist of:
 - a. Provision of rupiah funds from Bank Indonesia to Banks (lending facility); and
 - b. Placement of rupiah funds by Banks with Bank Indonesia (deposit facility).

3. Standing Facilities shall be provided by Bank Indonesia on every business day, including Bank Indonesia's limited business days.
4. The window time for Standing Facilities shall commence as from 16.00 until 18.00 Western Indonesia Time.
5. Applications for Standing Facilities transactions shall be made through BI-SSSS.
6. The tenure of Standing Facilities shall be 1 (one) business day (overnight).
7. The number of days calculated on Standing Facilities shall be based on calendar days.
8. Bank Indonesia shall announce Standing Facilities transactions through BI-SSSS, LHBUS System and/or other facilities prior to the window time of Standing Facilities.
9. In the event of any changes in the window time, series and type of Securities, haircut, repo rate and discount rate, the announcements shall be made prior to the window time of Standing Facilities.
10. In the event that after the transaction, the Standing Facilities maturity date is stipulated as a holiday by the government, the settlement shall be performed on the next business day without taking into account the repo interest or discount on the additional period of Standing Facilities transaction.

11. Settlement of Standing Facilities shall be performed on the transaction date (same day settlement) immediately following the pre cut-off of the BI-RTGS System. While settlement on matured Standing Facilities shall be performed on the maturity date as from the opening of the BI-RTGS System until the cut-off warning of the BI-RTGS System.
12. Banks shall be obliged to have sufficient funds in the Demand Deposit Account and/or Securities in the Securities Account for covering the Standing Facilities settlement obligations.
13. Bank Indonesia shall administer Standing Facilities in Securities Accounts in BI-SSSS.
14. Banks shall be responsible for the accuracy of data in the application for Standing Facilities submitted to Bank Indonesia.
15. Banks shall not be permitted to cancel the submitted Standing Facilities applications to Bank Indonesia.

III. LENDING FACILITY

1. The Principles of Transaction
 - a. Lending facility transactions shall be performed based on repurchase agreement (repo) mechanism, namely the sale of Securities by Banks to Bank Indonesia with an obligation to repurchase it at the agreed price and tenure.

- b. Lending facility transactions under repo mechanism shall be performed according to the sell and buy back principles, in which there shall be a transfer of ownership of Securities.
- c. Lending facility transactions shall be performed with a non-auction mechanism.

2. Securities

- a. Securities which may be subject to repo shall be SBI and SBN meeting requirements as referred to in Bank Indonesia provisions concerning the criteria and requirements of Securities, participant and intermediary in Monetary Operation.
- b. Securities which may be subject to repo shall be in the maximum amount of the nominal value of Securities held by a Bank, as recorded in the Securities Account.

3. Repo Rate

- a. Bank Indonesia shall charge repo interest on lending facility transactions in the amount of BI-Rate plus a certain margin.
- b. Repo interest shall be calculated based on simple interest method.

4. Announcement of Lending Facilities

Bank Indonesia shall announce lending facility transactions, which shall include among other things:

- a. window time;

- b. tenure;
- c. repo rate; and
- d. settlement time.

5. Submission of Transactions

- a. Banks shall submit lending facility transaction to Bank Indonesia through BI-SSSS in window time.
- b. The submission of lending facility transaction by Banks shall include among other things the nominal value and series and type of Securities subject to the repo.

6. Transaction Settlement

- a. First leg settlement
 - 1) Bank Indonesia shall perform first leg settlement on the transaction date (same day settlement) immediately following the pre cut-off of the BI-RTGS System.
 - 2) First leg settlement shall be performed through BI-RTGS System and BI-SSSS based on the Delivery Versus Payment (DVP) mechanism in a gross to gross manner, as follows:
 - a) Securities settlement, by debiting the Securities Account as much as the nominal value of the Securities subject to repo.

- b) Funds settlement, by crediting the Demand Deposit Account as much as the first leg settlement value.
 - c) Calculation of the first leg settlement value shall be as provided for in Bank Indonesia provisions concerning the criteria and requirements of Securities, participant and intermediary in Monetary Operation, with an example as provided in Appendix 1.
- 3) In the event that a Bank does not have a sufficient type and series of Securities in its Securities Account to cover its settlement obligations resulting in the failure of the first leg settlement, BI-SSSS shall automatically cancel the lending facility transaction which are not supported by sufficient Securities.
- 4) For the cancellation of lending facility transaction as referred to in point 3), the Bank shall be subject to sanctions as provided for in Bank Indonesia Regulation concerning Monetary Operations.
- 5) With regard to the calculation of the number of cancellation of lending facility transaction, in the event that there is more than 1 (one) failure of first leg

settlement on the same day, the cancellation of transaction shall be regarded as 1 (one) count.

b. Second leg settlement

1) On the maturity date of the lending facility (second leg), BI-SSSS shall automatically perform second leg settlement as from the opening of the BI-RTGS System until the cut-off warning of the BI-RTGS System.

2) Second leg settlement shall be performed through BI-RTGS System and BI-SSSS based on the DVP mechanism in a gross to gross manner, as follows:

a) Funds settlement, by debiting the Demand Deposit Account as much as the value of second leg settlement, calculated as follows:

$$\begin{array}{rcl} \text{Second leg} & \text{First leg} & \text{Lending Facility} \\ \text{settlement} & = \text{settlement} & + \\ \text{value} & \text{value} & \text{Re po} \\ & & \text{Interest} \end{array}$$

Remarks:

$$\begin{array}{rcl} \text{Lending Facility} & \text{First leg} & \\ \text{Re po} & = \text{settlement} & \times \text{Re po} \times \frac{\text{Tenure}}{360} \\ \text{Interest} & \text{value} & \text{rate} \end{array}$$

b) Securities settlement, by crediting the Securities Account as much as the nominal value of the Securities subject to repo.

- c) Calculation of the second leg settlement value shall be as provided for in Bank Indonesia provisions concerning the criteria and requirements of Securities, participant and intermediary in Monetary Operation, with an example as provided in Appendix 1.
- 3) In the event that a Bank does not have sufficient funds in its Demand Deposit Account to cover its settlement obligations until the cut-off warning of the BI-RTGS System resulting in the failure of the second leg settlement, BI-SSSS shall automatically cancel the matured lending facility transaction (second leg).
 - 4) In the event of a cancellation as referred to in point 3), during the second leg Bank Indonesia shall debit the Demand Deposit Account with the amount of the lending facility repo interest payment obligation.
 - 5) For the cancellation of matured lending facility transaction (second leg) as referred to in point 3), the Bank shall be subject to sanctions as provided for in Bank Indonesia Regulation concerning Monetary Operations.
 - 6) With regard to the calculation of the number of cancellation of lending facility transaction, in the event that there is more than 1 (one) failure of second leg

settlement on the same day, the cancellation of transaction shall be regarded as 1 (one) count.

7. Failure of Second Leg Settlement

In the event that a Bank fails to perform second leg settlement, the Securities subject to repo shall be treated as follows:

- a. In the event that the Securities are SBI, Bank Indonesia shall perform early redemption automatically through BI-SSSS.
- b. In the event that the Securities are SBN, the relevant transaction shall be treated as an outright sale transaction.
- c. Calculation of the settlement value and the application of Securities price for outright sale transaction shall be as provided for in Bank Indonesia provisions concerning the criteria and requirements of Securities, participant and intermediary in Monetary Operation, with an example as provided in Appendix 2.
- d. In the event that the outright transaction value:
 - 1) is lower than the second leg settlement obligation, Bank Indonesia shall debit the Demand Deposit Account in the amount of the difference between the value of the second leg settlement obligation and the outright transaction value.
 - 2) is higher than the value of second leg settlement obligation, Bank Indonesia shall credit the Demand Deposit Account in the amount of the difference

between the value of the second leg settlement obligation and the outright transaction value.

8. Securities Coupons

- a. In the event that the SBN subject to repo in the lending facility bears coupon/return, the Bank shall be entitled to the right to receive such coupon/return.
- b. In the event that after the termination of the lending facility transaction Bank Indonesia receives coupons/returns for the SBN subject to repo by the Bank, on the date of receipt of the coupon/return, Bank Indonesia shall credit the relevant Demand Deposit Account with the amount of the coupon/return received.
- c. Treatment for the coupon/return in the event of second leg settlement failure and the Securities are treated as outright sale transaction:
 - 1) In the event that after the outright transaction date Bank Indonesia receives the payment of coupons/returns for the SBN subject to repo by a Bank, Bank Indonesia shall be entitled to the coupon/return.
 - 2) In the event that on the outright transaction date the Bank receives the payment of coupon/return for the SBN subject to repo, the calculation for the outright transaction shall not taken into account the accrued

interest/return as from the first leg settlement date up to and including the outright settlement date.

- 3) In the event that after the outright transaction date the Bank receives the payment of coupon/return for the SBN subject to repo, Bank Indonesia shall debit the relevant Demand Deposit Account with the amount of accrued interest/return as from the outright transaction date up to and including the date of the payment of coupon/return.

IV. DEPOSIT FACILITY

1. Principles of Transaction

- a. Deposit facility transaction shall be performed by placing rupiah funds by Banks during certain tenure with Bank Indonesia.
- b. Deposit facility transaction shall be performed without issuing Securities.
- c. Deposit facility transaction shall be performed by applying the non-tender mechanism.

2. Discount Rate

- a. Deposit facility transaction shall be performed by using a discount system with a discount rate of BI-Rate minus a certain margin.
- b. The cash value of deposit facility transaction shall be calculated based on true discount as follows:

$$\text{Cash Value} = \frac{\text{Nominal Value} \times 360}{360 + (\text{Discount Rate} \times \text{Tenure})}$$

- c. Discount value of the deposit facility transaction shall be calculated as follows:

$$\text{Discount Value} = \text{Nominal Value} - \text{Cash Value}$$

3. Deposit Facility Announcement

Bank Indonesia shall announce deposit facility transactions, which includes among other things:

- a. window time;
- b. tenure;
- c. discount rate; and
- d. settlement time.

4. Application for Transaction

- a. Banks shall apply for deposit facility transaction with Bank Indonesia through BI-SSSS in the stipulated window time by stating the nominal value of the transaction.
- b. The minimum nominal value for each application for deposit facility transaction shall be Rp1,000,000,000.00 (one billion rupiah) and the rest in a multiple of Rp100,000,000.00 (one hundred million rupiah).

5. Announcement of Transaction Results

After the window time is closed, Bank Indonesia shall announce the results of the deposit facility transactions individually to Banks through BI-SSSS, among other things on its cash value and discount

value.

6. Transaction Settlement

a. Transaction settlement

- 1) Bank Indonesia shall perform deposit facility settlement on the transaction date (same day settlement) immediately following the pre cut-off of the BI-RTGS System.
- 2) Deposit facility settlement shall be performed in consolidation for each Bank through the BI-RTGS system by debiting the Demand Deposit Account with the amount of the total cash value of the deposit facility transaction of the relevant Bank.
- 3) In the event that a Bank does not have sufficient funds in the Demand Deposit Account to cover its deposit facility settlement obligations resulting in the failure of the settlement, BI-SSSS shall automatically cancel the deposit facility transaction.
- 4) For the cancellation of the deposit facility transaction as referred to in point 3), the Bank shall be subject to sanctions as provided for in Bank Indonesia Regulation concerning Monetary Operations.

b. Deposit facility maturity settlement

On the maturity date of the deposit facility, Bank Indonesia shall perform the repayment of deposit facility automatically

through BI-SSSS by crediting the Demand Deposit Account in the amount of the nominal value of the deposit facility.

V. PROCEDURES FOR THE IMPOSITION OF SANCTIONS

1. In the event that a Bank does not meet its obligations at the time of settlement resulting in the cancellation of transaction as referred to in items III.6.a.4), III.6.b.3) and IV.6.a.3), the Bank shall be subject to the following sanctions:
 - a. a written reprimand with a copy to:
 - 1) The relevant Directorate of Bank Supervision, in the event that the sanction is imposed to the Bank having its head office in the operational area of Bank Indonesia Head Office (KPBI); or
 - 2) Bank Supervisory Team at Bank Indonesia Regional Office (KBI), in the event that the sanction is imposed to the Bank having its head office in the operational area of the Bank Indonesia Regional Office (KBI); and
 - b. a financial penalty of 0.01% (one per ten thousandth) of the nominal value of the Bank's cancelled transaction, with the minimum amount of Rp10,000,000.00 (ten million Rupiah) and the maximum amount of Rp100,000,000.00 (one hundred million Rupiah).
2. The written reprimand as referred to item 1.a shall be delivered within 1 (one) business day following the cancellation of transaction.

3. The financial penalty as referred to item 1.b shall be imposed by debiting the Demand Deposit Account of the relevant Bank within 1 (one) business day following the cancellation of transaction.
4. For the cancellation of Monetary Operation transactions, which include Open Market Operation transactions and Standing Facilities transactions, which occurs for the third time during 6 (six) month-tenure, in addition to being subject to the sanction as referred to point 1, the Bank shall also be subject to temporary suspension of its participation in Monetary Operations for 5 (five) consecutive business days.
5. The temporary suspension of its participation in Monetary Operations as referred to in point 4 shall become effective as from 1 (one) business day following the cancellation of transaction.

Example of the imposition of sanction of temporary suspension from participation in monetary transactions shall be as provided in Appendix 3.

VI. CLOSING

With the enactment of this Bank Indonesia Circular Letter:

1. Bank Indonesia Circular Letter Number 6/5/DPM dated February 16, 2004 concerning Implementation and Settlement of Bank Indonesia's Deposit Facility in Rupiah (FASBI);
2. Bank Indonesia Circular Letter Number 7/4/DPM dated February 1, 2005 concerning Amendment to Bank Indonesia Circular Letter Number 6/5/DPM dated February 16, 2004 concerning

Implementation and Settlement of Bank Indonesia's Deposit Facility
in Rupiah;

3. Bank Indonesia Circular Letter Number 10/2/DPM dated January 31, 2008 concerning Repurchase Agreement Transactions With Bank Indonesia in the Secondary Market;
4. Bank Indonesia Circular Letter Number 10/24/DPM dated July 14, 2008 concerning Amendment to Bank Indonesia Circular Letter Number 10/2/DPM dated January 31, 2008 concerning Repurchase Agreement Transactions With Bank Indonesia in the Secondary Market; and
5. Bank Indonesia Circular Letter Number 10/43/DPM dated December 5, 2008 concerning Second Amendment to Bank Indonesia Circular Letter Number 10/2/DPM dated January 31, 2008 concerning Repurchase Agreement Transactions With Bank Indonesia in the Secondary Market,

shall be revoked and declared null and void.

The provisions set forth in this Bank Indonesia Circular Letter shall be effective on July 7, 2010.

For public cognizance, it is ordered that this Bank Indonesia Circular Letter be promulgated in the State Report of the Republic of Indonesia.

Please be informed accordingly.

BANK INDONESIA,

HENDAR

DIRECTOR OF MONETARY MANAGEMENT